REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND COUNCIL ON MKHAMBATHINI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Mkhambathini Municipality set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Mkhambathini Municipality as at 30 June 2013 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

8. As disclosed in note 24 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of errors discovered during 2013 in the financial statements of the Mkhambathini Municipality at, and for the year ended 30 June 2012.

Unaudited supplementary schedules

9. The supplementary information set out on pages 39 to 40 does not form part of the financial statements and is presented as additional information. I have not audited this schedule and, accordingly, I do not express an opinion thereon

Significant uncertainties

With reference to note 51 to the financial statements, the municipality is a defendant in various lawsuits and there are also uncertainties arising from the fact that SALGA has appealed the recent court order regarding the wage curve agreement. If the outcome is unfavourable, the municipality will have to embark on a job evaluation process before implementing the wage curve. Therefore, the ultimate outcome of these matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

1. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

1. I performed procedures to obtain evidence about the usefulness and reliability of the information in the [name of annual performance report] as set out on pages ... to ... of the annual report.

2. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned objectives. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.

   The reliability of the information in respect of the selected programmes is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).

   The material findings are as follows:

Usefulness of information

Measurability

Performance targets not time bound

3. A total of 37% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles

Performance Indicators not well defined

4. A total of 21% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the *FMPPI* but did not receive the necessary training to enable application of the principles.

Achievement of planned targets

5. Of the total number of 112 targets planned for the year, 37 of targets were not achieved during the year under review. This represents 33% of total planned targets that were not achieved during the year under review.

   This was mainly due to the fact that indicators and targets were not suitably developed during the strategic planning process

Compliance with laws and regulations

6. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements

7. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements identified by the auditors in the submitted financial statements were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

8. The accounting officer did not take reasonable steps to prevent irregular expenditure, as required by section 62(1) (d) of the MFMA.

Asset management

9. An effective system of internal control for assets was not in place as required by section 63(2)(c) of MFMA.

Internal control

10. I considered internal control relevant to my audit of the financial statements, performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for unqualified opinion and the findings on compliance with laws and regulations included in this report.

Leadership

11. The accounting officer did not exercise adequate oversight over financial reporting and compliance as well as internal control. In this regard, the accounting officer did not regularly assess whether staff members had essential skills and knowledge to support the achievement of credible reporting and comply with designed policies and procedures, as well as legislative requirements.

Financial and performance management

12. Adequate processes were not in place to communicate timely and relevant information to those charged with governance, in that monthly reporting and reconciliation processes were not at desired levels. In addition records management and review processes were not designed and implemented in a manner to improve accountability and credibility in financial and compliance reporting. This is evidenced by material corrections in the financial statements, as well as the lack of records that arose during the auditing process.

Governance

13. The audit committee did not promote accountability and service delivery through evaluating and monitoring responses to risks and provide oversight over the effectiveness of the internal control environment, including financial and compliance with laws and regulations.

Auditor-General

Pietermaritzburg

29 November 2013

AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence